Recommendation to Governor and State Legislature Regarding Fiscal Actions to be Taken in Special Session if A Session Must Be Called

HCR 11 created the Task Force on Structural Changes in Budget and Tax Policy with the responsibility to "continue the budget and tax reform evaluations begun during the 2016 First Extraordinary Session, to make recommendations of changes in the state's tax laws in an effort to modernize and enhance the efficiency and fairness of the state's tax policies for individuals and businesses, to examine the structure and design of the state budget and make recommendations for long-term budgeting changes, and to report to the legislature by September 1, 2016, and to urge and request the governor to support and implement initiatives for structural change introduced in upcoming sessions of the legislature intended to bring about long term improvements to the programs and services of state government as well as cost savings through more efficient and effective state operations."

The Task Force initiated its work on March 17 and obviously has a long way to go before offering a complete plan for restructuring the state's budget and tax policy.

Governor John Bel Edwards, in a letter dated April 28, 2016, stated that in his judgment he would have to call a second special session to raise additional revenues or the state would be faced with "dramatic and unsustainable cuts to essential parts of state government." He requested a preliminary report from the Task Force regarding specific recommendations for ways to address raising revenue in an upcoming special session that would be "in accord with the Task Force's anticipated comprehensive, long-term approach to tax reform."

The Task Force appreciates that not everyone agrees with the Governor's assessment. Members of the Task Force, by responding to the Governor's letter, are not saying a special session is or is not required, but we are saying that any changes in tax policy should be consistent with comprehensive, long-term reform.

If the Governor and Legislature determine there is a need for a second extraordinary session, either in June or later on in the year, the Task Force makes the following recommendations to the Governor and State Legislature based on a tax study presented to the State Legislature by economists at Louisiana State University and Tulane University and an analysis of the Louisiana tax structure by the Tax Foundation completed for the Louisiana Committee of 100.

First, the Task Force recognizes that in the 2016 Special Session the Legislature raised the state sales tax rate from 4% to 5% in order to handle the projected shortfall in the fiscal year 2016. The Task Force does not believe that any further increases in the state sales tax rate is consistent with desirable long-term tax policy.

Second, the Task Force suggests the following methods of raising state revenues would be consistent with structural reform:: (1) evaluate the tax base for individual and corporate income taxes including any and all exemptions and deductions, that are not constitutionally protected in Louisiana, required by the U.S. constitution or would be inconsistent with federal income tax principles; (2) evaluate the tax brackets for the individual income tax in line with the present constitutional limitations and relative to states that relies on the individual income tax to pay for state public services; (3) evaluate tax credits in line with their purpose, their cost to the state, and their contributions to the state in line with their expectations as well as in line with any recent changes to these tax credits; and (4) to review administrative provisions related to state tax collections.

The above-mentioned tax studies indicated the importance of expanding the tax bases and eventually lowering tax rates on individual and business taxes. These recommendations are in line with that long-term goal and strategy of structural reform of the Louisiana tax structure.

Third, the Task Force recommends the state **consider** and, if necessary, change the timing of the vote on the constitutional amendment regarding the elimination of federal tax payments as a deduction in the computation of corporate taxable income from November 2016 to another election date so that any and all tax changes suggested by the Task Force and accepted by the State Legislature can be considered as a package. The proposal to eliminate the federal income tax deductibility in the computation of corporate taxable income and create a lower corporate tax rate is fully consistent with recommendations associated with the LSU/Tulane tax study and the analysis by the Tax Foundation.

Fourth, the Task Force appreciates that the revenue estimates for fiscal 2017 are based on a relatively short timeframe so the historical support for the estimates is limited. The revenue estimates have therefore been carefully and cautiously done which, in the opinion of the Task Force, is very prudent reasonable, and responsible budgetary policy. If, however, the actual collections outpace the estimated revenues from fiscal notes in the 2015 regular session and 2016 special session, then the Task Force suggests that the Legislature consider setting a limit on recurring spending for fiscal year 2017 and 2018, with any revenues above this limit being dedicated to non-recurring projects such as infrastructure improvements, paying down the unfunded accrued liability, the creation of a permanent fund, or some other such non-recurring project. The Task Force does not have a formula for such a limit on spending, but the Task Force believes that one structural change in the Louisiana budgetary model should be to live within long-term and sustainable budgetary trends as opposed to over-reacting to short-term and possibly unsustainable surges in revenues.

Fifth, in reviewing these tax measures the Legislature should consider whether or not any tax changes which generate additional revenue should sunset within the same timeframe as the sales tax increase enacted in the March special session.